

WEBVTT

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<v SPEAKER\_2>Hello, everyone, and welcome to Energy Security Cubed, one of the world's foremost energy security podcasts presented by the CGAI, or Canadian Global Affairs Institute.

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<v SPEAKER\_2>I'm Kelly Ogle, Managing Director here at CGAI.

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<v SPEAKER\_3>And I'm Joe Calnan, Vice President of Energy and Calgary Operations at the Canadian Global Affairs Institute.

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<v SPEAKER\_3>Unfortunately, this week, both Kelly and I are out of the office in Washington, DC for our Natural Gas Dialogue.

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<v SPEAKER\_3>So we do not have a new episode for release.

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<v SPEAKER\_3>We will instead be re-releasing our interview from last year with Scott Kennedy from CSIS, focused on China's EV industrial policy.

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<v SPEAKER\_3>We'll be back next week with a fresh episode.

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<v SPEAKER\_2>For today's interview, which was recorded on July 8, 2024, we discussed Chinese electric vehicle policy and what that means for international trade and the effectiveness of new tariffs meant to stymie China's growing lead in the EV manufacturing industry.

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<v SPEAKER\_3>Well, with us to discuss this is Scott Kennedy.

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<v SPEAKER\_3>Scott is a Senior Advisor and the Trustee Chair in Chinese Business and Economics at the Center for Strategic and International Studies.

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<v SPEAKER\_2>Delighted to have you on our podcast, Scott.

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<v SPEAKER\_1>Thank you so much.

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<v SPEAKER\_1>Happy to be here.

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<v SPEAKER\_2>Can we lead with some context around the growing tensions between China and Western countries surrounding electric vehicles?

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<v SPEAKER\_2>Specifically, I'd like to consider the state of the Chinese economy and how this could be impacting Chinese policy.

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<v SPEAKER\_2>Scott, in early June, you wrote an article for Foreign Policy which asked, why is Xi not fixing China's economy?

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<v SPEAKER\_2>This headline implies that the Chinese economy is in some sense broken.

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<v SPEAKER\_2>What's gone wrong in their economy and how has Chinese leadership started to address any issues that you've brought forth and others that you might care to discuss?

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<v SPEAKER\_1>Sure.

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<v SPEAKER\_1>For most of the last 45 years, China's economy has outperformed everybody else.

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<v SPEAKER\_1>Their growth numbers up through 2009 were extremely high.

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<v SPEAKER\_1>Global financial crisis slowed them down.

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<v SPEAKER\_1>They had a big stimulus.

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<v SPEAKER\_1>They had another wave of growth.

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<v SPEAKER\_1>But over the last decade, the economy has slowed.

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<v SPEAKER\_1>Partly, that's math.

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<v SPEAKER\_1>You just can't keep growing at 10 percent forever.

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<v SPEAKER\_1>But partly, it changes in approach.

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<v SPEAKER\_1>Partly, it's the reaction of the rest of the world to China's strategy, which is investment-led strategy to invest in a lot of different industries, scale up, use China's protected market when they can, to grow the industry, to develop an advantage.

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<v SPEAKER\_1>The Chinese would call it a natural advantage.

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<v SPEAKER\_1>Everyone else would call it an artificial advantage.

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<v SPEAKER\_1>But nevertheless, you've seen the economy slow down, but also tensions with others rise.

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<v SPEAKER\_1>Then of course, you have the geostrategic tensions with the United States, which isn't just really about economics, although that's part of it.

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<v SPEAKER\_1>It's about how the pie is divided up.

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<v SPEAKER\_1>But it's also about these two very different political systems, and there are different views about the type of international order that would favor them.

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<v SPEAKER\_1>The US has been trying to defend the post-World War II liberal international order, the rules-based order for a long time.

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<v SPEAKER\_1>The direction China is going in seems to be challenging that.

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<v SPEAKER\_1>The US and others have taken a variety of steps with regard to protecting their markets, as well as becoming more resilient and implementing a whole range of policies related to economic security.

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<v SPEAKER\_1>On top of all that, you have the COVID-19 pandemic and the effects that it had globally on how people look at China, as well

as China's growth pattern and trajectory and everyone else's and everyone trying to restart their economies as best they can.

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<v SPEAKER\_1>You have all of those things going on.

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<v SPEAKER\_1>Within China, Xi Jinping and the leadership have taken a pretty clear strategy of focusing on trying to dominate advanced technologies as the source of a new growth driver.

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<v SPEAKER\_1>That is borne some fruit and we're going to talk about some of that fruit, the consequences of it for the world.

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<v SPEAKER\_1>But it also means that there are areas what they haven't focused on.

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<v SPEAKER\_1>They have not focused on households and domestic consumption and the social safety net.

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<v SPEAKER\_1>In any case, with China's economy slowing down with greater tensions, there is more anxiety in China than ever before.

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<v SPEAKER\_1>That's what I was trying to write about.

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<v SPEAKER\_1>People are speculating about why from their perspective, economic policy isn't addressing these kinds of challenges.

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<v SPEAKER\_1>There's a big disagreement in China between people who are wondering about whether the leadership has enough information or whether they're still debating about whether the right kind of policies or whether national security has become so important that economics has taken a back seat.

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<v SPEAKER\_1>The alternative argument is that people have it wrong, that this strategy China is employing of pushing high tech is working.

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<v SPEAKER\_1>We know it's working because other countries are upset and having to respond, and that's proof that they should keep going.

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<v SPEAKER\_1>So this is a debate within China and globally about how governments can promote their economies in a world that is very different from where we were a few decades ago or even a few years ago.

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<v SPEAKER\_3>I think I'd like to touch on this debate because I think there's a few interesting perspectives on China's current position in the global economy.

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<v SPEAKER\_3>For example, I've been trying to get Michael Pettis on the podcast for a little bit of time.

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<v SPEAKER\_3>I'm sure you're aware of Michael Pettis, Scott.

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<v SPEAKER\_3>He has some interesting thoughts on it, but there's a lot of people who disagree with him as well.

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<v SPEAKER\_3>Like you said about the idea that this technological dominance over certain sectors could power Chinese economic growth longer term.

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<v SPEAKER\_3>But just on that, it's despite this broad scale economic weakness in terms of household consumption, for example, and the way that the real estate market is not operating very well in China.

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<v SPEAKER\_3>But there are a few statistics that seem to indicate growing Chinese dominance in several key sectors, which quite a few people think that these sectors are kind of the key to many parts of the future of the global economy.

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<v SPEAKER\_3>So global manufacturing in general, of course, is highly concentrated in China, as most people who pay attention to international economics would know.

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<v SPEAKER\_3>But in particular, greater than 80% dominance in most steps of kind of the battery supply chain, which is crucial for electric vehicles, as well as for things like solar panels, China absolutely dominates the supply chain for solar panels as well.

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<v SPEAKER\_3>And both these are very important to the future of our

understanding of energy.

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<v SPEAKER\_3>So I'd like to ask, is Chinese dominance in these sectors, is this happening despite China's larger economic issues, or is there like a more complex kind of relationship there?

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<v SPEAKER\_1>Well, I think the first thing to say about this is yes, China's position in the global economy has changed dramatically.

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<v SPEAKER\_1>No longer are they assembling clothing and toys and sneakers and other types of items for the rest of the world.

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<v SPEAKER\_1>Actually, that's fallen out of favor in China.

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<v SPEAKER\_1>They've moved up the value-added chain and wages have gone up in China, and that kind of production occurs in Southeast Asia, South Asia, other parts of the world these days.

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<v SPEAKER\_1>China is much more of not just an assembler but a manufacturer and now an innovator.

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<v SPEAKER\_1>When US-China relations were better, when China's relationships with the West were better, we thought that is a good thing.

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<v SPEAKER\_1>We saw, oh, here's a successful developing country story that lifts a lot of people out of poverty and provides opportunity for others, and we don't have that poverty problem now and we have more consumers.

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<v SPEAKER\_1>But as the relationship has worsened on a geostrategic level and as China is now competing at the very high end for the most advanced sectors, this is much more tension-filled.

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<v SPEAKER\_1>And also some of the ways in which China is competing with heavy intervention from the state across all ways, not just spending money, but protecting the economy, all kinds of regulatory requirements for foreign investors in China, cyber activity and all the like also really worries people.

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<v SPEAKER\_1>In terms of the balance of who's winning in high tech, I still think it's important for people, if we're taking score, if we're looking at the full score, the US and the West are still way ahead of China.

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<v SPEAKER\_1>There are some individual sectors where the Chinese are really quite dominant.

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<v SPEAKER\_1>You've mentioned a couple of them in solar.

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<v SPEAKER\_1>We'll talk about EVs and batteries and areas where they really are critical.

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<v SPEAKER\_1>But China's dominance still is primarily in manufacturing efficiently with the full logistics and infrastructure to support that.

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<v SPEAKER\_1>At the very top end of tech, the US and the West are still in the lead.

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<v SPEAKER\_1>And we are in the lead in part because of our interaction with the Chinese.

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<v SPEAKER\_1>This has helped the Chinese move ahead, but it's also helped us run faster as well.

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<v SPEAKER\_1>So in semiconductors and quantum and a variety of technologies, the US and the West are still overall in front, and China is still highly reliant and dependent on us.

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<v SPEAKER\_1>That said, in some areas, particularly where we have not put the level of attention and focus at the national and federal governments and local, and lost sight of what's important, the Chinese have swooped in and taken advantage of that inattention.

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<v SPEAKER\_1>Electric vehicles and batteries being one place where there's been far too insufficient public policy and industry attention, and the Chinese grabbed onto that space and have moved ahead extremely fast.

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<v SPEAKER\_2>You know, Scott, you make some really, really good points there.

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<v SPEAKER\_2>There's all kinds of parts of the whole economic makeup of the globe that you touch on.

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<v SPEAKER\_2>And I think that people need to understand that better.

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<v SPEAKER\_2>Sometimes they look past that, and I'm going to do that now.

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<v SPEAKER\_2>Because the damn electric vehicles question is the one that seems to be in the news right at present.

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<v SPEAKER\_2>And I'd like to drill down a little bit on that if we could.

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<v SPEAKER\_2>You recently released a blog post for the Center for Strategic and International Studies, CSIS, titled The Chinese EV Dilemma, Subsidizing Yet Striking.

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<v SPEAKER\_2>In this report, you unpack major Chinese policies around electric vehicle manufacturing and adoption.

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<v SPEAKER\_2>What did you find generally from your research into these particular industrial policies?

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<v SPEAKER\_2>Because there's a lot of noise out there about that.

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<v SPEAKER\_2>And this is the crux of the discussion around the US tariffs and what a different president might be like.

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<v SPEAKER\_2>Could we go into that a bit?

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<v SPEAKER\_1>Sure.



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<v SPEAKER\_1>I've been going to China for a long time.

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<v SPEAKER\_1>And when I first went there in the late 80s, there were very few private cars.

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<v SPEAKER\_1>If you want to get a taxi, you'd have to call a day in advance to set it up.

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<v SPEAKER\_1>Most people took the bus or the road bicycle.

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<v SPEAKER\_1>China had some very old cars from the 1950s, which they kept producing, that were horrible.

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<v SPEAKER\_1>China then started to attract foreign investors in the auto sector and thought through requiring joint ventures with Chinese partners that they would school up and get better, and eventually develop their own domestic industry.

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<v SPEAKER\_1>That really didn't bear a ton of fruit.

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<v SPEAKER\_1>These local partners of GM, of Mercedes, of Honda, Toyota, Ford, really never developed their own independent capabilities.

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<v SPEAKER\_1>Up until very recently, foreign brands in China have dominated the market.

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<v SPEAKER\_1>I think what happened is you saw the rise of a small number of private Chinese companies who didn't have these joint ventures, who developed their own brands at the very bottom of the market and then gradually got better.

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<v SPEAKER\_1>Also hired these foreign engineering auto consultants to help them.

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<v SPEAKER\_1>And then they had other kinds of relationships with foreign companies like Geely in Zhejiang Province, acquired Volvo, a Swedish maker, who learned through that partnership.

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<v SPEAKER\_1>And then you've got the EV revolution.

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<v SPEAKER\_1>And early days, a minister of science and technology who had worked at Audi in Germany, identified this as a big investment.

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<v SPEAKER\_1>And the debate in China was, do you go hybrid or do you go EV?

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<v SPEAKER\_1>And he put his money on full plug-in electrics, EVs.

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<v SPEAKER\_1>And the government started spending extensive amounts of money since about 2014 or so.

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<v SPEAKER\_2>Yeah, I was just going to ask you, I was just going to ask you, when was that?

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<v SPEAKER\_2>Because it set the table really for, and I'm sorry to interject, but it feels like that policy may have set the table for all of the other manufacturers, except Toyota, to go full electric.

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<v SPEAKER\_2>Would that be a fair comment, do you think?

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<v SPEAKER\_1>Sure, yeah.

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<v SPEAKER\_1>I mean, it really, you could say, just after the Olympics in 2008, 2009, is when public policy in China started to really pay attention to this.

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<v SPEAKER\_1>But it's really 2014 and 15, where spending begins to ramp up from the government to provide rebates to buyers and incentives to producers, and to invest in charging infrastructure and in R&D, and to mobilize government procurement.

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<v SPEAKER\_1>And we saw, and what our study that you cited finds is that through the end of last year, China's government has spent at least, by our math, around 230 billion US dollars on the EV sector itself for rebates, sales tax, incentives, R&D, government

infrastructure, et cetera.

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<v SPEAKER\_1>It doesn't include free land, cheap electricity, cheap credit.

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<v SPEAKER\_1>Doesn't, so the amount is probably a lot higher than that, but that's still a lot.

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<v SPEAKER\_1>But in addition to that money that we try to do the math on, in 2018-19, the Chinese government adopted a policy called the dual credit system.

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<v SPEAKER\_1>And what they said is they copied California's zero emissions strategy.

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<v SPEAKER\_1>And they said, if you want to produce cars in my market, a proportion of your fleet needs to be all electric, or if it's hybrid, we'll count those a little bit less.

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<v SPEAKER\_1>And then, over time, we're going to raise the proportion of cars in your fleet that must be electric.

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<v SPEAKER\_1>And if you don't, you're going to have to buy credits from those that have extra credits that have over fulfilled on their fleets.

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<v SPEAKER\_1>And what that did is because China's market is so, so large and regulation, which sounds like an incentive is really a mandate, all of Chinese domestic producers took that signal to electrify quickly.

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<v SPEAKER\_1>You then saw pure electric car companies like NIO and XPeng be created in China.

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<v SPEAKER\_1>And then you saw pressure on foreign automakers from VW to GM to others that tried to adjust.

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<v SPEAKER\_1>The foreign automakers have dilly-dallied because the costs are still high and income from EVs is still low.

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<v SPEAKER\_1>But the domestic companies took that signal and ran with it.

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<v SPEAKER\_1>And because you can survive in China a very long time, even if you don't make a profit because of these sources of support, it has shifted the domestic industry.

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<v SPEAKER\_1>And so you've seen a ton of money thrown in in regulatory support, which has meant a lot of new EVs.

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<v SPEAKER\_1>And by the math of efficiency doesn't look very efficient and looks like top-down industrial policy.

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<v SPEAKER\_1>On the other hand, the second finding is that when you go to China, you find a lot of amazing EVs of so many different brands, so many different makeups and styles.

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<v SPEAKER\_1>And really, China has gotten over the hump, and they are moving in the direction of electrifying across the board, including the infrastructure.

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<v SPEAKER\_1>And actually, we found that the amount of financial support and incentives they need to provide to buyers has gone down over the last few years.

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<v SPEAKER\_1>And so they've cleared that.

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<v SPEAKER\_1>The US and much of the rest of the world are still on the other side of that hump.

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<v SPEAKER\_3>Yeah.

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<v SPEAKER\_3>So just before I go into this next question, and kind of going off script a little bit here, if you don't mind, Scott, we can always edit if need be.

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<v SPEAKER\_3>But my sense has always been, of course, you know, like,

I think there's a natural desire for China to create their own domestic supply chains for the vehicles that their citizens consume.

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<v SPEAKER\_3>But also, I always got the sense that the drive behind why EVs or why low emissions vehicles is also to do with the energy security of China and the feeling of vulnerability that the Chinese government had from their absolutely enormous amount of oil imports.

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<v SPEAKER\_3>So I just like to get your sense on whether you think I'm barking up the wrong tree.

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<v SPEAKER\_3>Like, does that does energy security considerations, is that ever entered into like the justification for these sorts of supports?

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<v SPEAKER\_1>You're standing at the right tree.

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<v SPEAKER\_1>Don't worry about it and continue to bark.

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<v SPEAKER\_1>Certainly, China is one of the world's largest importers of oil from the Middle East and elsewhere.

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<v SPEAKER\_1>And that dependency is from the government's point of view is a significant vulnerability.

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<v SPEAKER\_1>And so that's one of three reasons why the Chinese have put their bet on EVs.

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<v SPEAKER\_1>The other first one is air pollution in in the 2000s.

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<v SPEAKER\_1>And air pollution in China was absolutely horrible.

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<v SPEAKER\_2>And they shut down industry for like 60 days before the Olympics.

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<v SPEAKER\_2>Right.

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<v SPEAKER\_1>Yeah.

00:20:11.256 --> 00:20:11.396

<v SPEAKER\_1>Yeah.

00:20:11.396 --> 00:20:11.536

<v SPEAKER\_1>Yeah.

00:20:11.536 --> 00:20:11.776

<v SPEAKER\_1>Yeah.

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<v SPEAKER\_1>I mean, and if you walk around the Chinese cities, you know, the air would be horrible.

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<v SPEAKER\_1>And as a result, limiting auto emissions isn't the only solution to that.

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<v SPEAKER\_1>There's a lot of things.

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<v SPEAKER\_1>But that was part of it.

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<v SPEAKER\_1>And there was real popular dissatisfaction at air pollution.

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<v SPEAKER\_1>And this was one of them.

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<v SPEAKER\_1>The third is you also highlighted is the goal of technology leapfrog.

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<v SPEAKER\_1>How can they get out from under Western dominance of internal combustion engines and that dependence?

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<v SPEAKER\_1>And the electric motor is far simpler than an internal combustion engine.

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<v SPEAKER\_1>And battery technology, they've already been working on BYD long before they got into selling cars, was making lithium ion batteries for laptops and phones and lots of other things.

00:20:58.896 --> 00:21:04.576

<v SPEAKER\_1>And so was CATL, which is now by far the world's dominant battery maker.

00:21:04.576 --> 00:21:12.596

<v SPEAKER\_1>So all of those things were in the mix, those three branches of the tree that you're barking up.

00:21:12.596 --> 00:21:13.376

<v SPEAKER\_3>Oh, great.

00:21:13.376 --> 00:21:13.716

<v SPEAKER\_3>Yeah.

00:21:13.716 --> 00:21:19.796

<v SPEAKER\_3>Well, I mean, that's always been my idea for one of the big reasons why China decided to go in that direction.

00:21:19.876 --> 00:21:22.276

<v SPEAKER\_3>But the air pollution idea is also huge.

00:21:22.276 --> 00:21:30.636

<v SPEAKER\_3>And I think that that's going to have a big impact on decisions in South and Southeast Asia, and probably in the future Africa as well.

00:21:30.636 --> 00:21:39.536

<v SPEAKER\_3>But turning to kind of the scripted question, something that I found quite interesting from your blog post is how familiar a lot of these Chinese government supports are.

00:21:39.796 --> 00:21:41.836

<v SPEAKER\_3>It's nothing really alien.

00:21:41.836 --> 00:21:47.696

<v SPEAKER\_3>It's something that if anybody pays attention to government supports in the West, it's of course very familiar.

00:21:48.136 --> 00:22:00.456

<v SPEAKER\_3>You know, tax rebates, other tax measures like the sales tax, I think the sales tax exemption, manufacturing loan supports, research and development funding, government procurement support.

00:22:00.456 --> 00:22:07.096

<v SPEAKER\_3>Now these policies all seemed very familiar to another recent package of industrial policy.

00:22:07.096 --> 00:22:14.556

<v SPEAKER\_3>And this was the Biden administration's supports for electric vehicles, manufacturing adoption, especially in the Inflation Reduction Act.

00:22:14.636 --> 00:22:19.456

<v SPEAKER\_3>But there's a few other things that are being implemented outside of that.

00:22:19.456 --> 00:22:24.536

<v SPEAKER\_3>I believe that some Buy America provisions and things like that are outside of the IRA.

00:22:24.536 --> 00:22:26.196

<v SPEAKER\_3>But I could be wrong.

00:22:26.196 --> 00:22:37.376

<v SPEAKER\_3>But, you know, would you agree that, you know, the basket of policies that China has implemented and, you know, the American basket policies are similar or are there substantive differences that you think are important to point out?

00:22:37.376 --> 00:22:38.516

<v SPEAKER\_1>Sure.

00:22:38.516 --> 00:22:39.696

<v SPEAKER\_1>It's a great question.

00:22:39.696 --> 00:22:53.956

<v SPEAKER\_1>And I think we're seeing, if you can't beat us, join us, trends in a variety of different industries where China has grown a lot and others are needing to respond, EVs being one of them.

00:22:53.956 --> 00:23:05.016

<v SPEAKER\_1>Still, the scale of Chinese support and the regulatory involvement is pretty darn high and it's consistent across the board.

00:23:05.196 --> 00:23:10.676

<v SPEAKER\_1>There's no real counterweight to these things pushing back in the other direction.

00:23:11.936 --> 00:23:34.276

<v SPEAKER\_1>And I think what we've seen in the United States is, yes, significant support relative to where things were before in terms of the amount of money, the potential for \$7,500 credits to buyers for cars that meet certain conditions, more support for charging infrastructure, etc.

00:23:35.076 --> 00:23:45.636

<v SPEAKER\_1>On the other hand, I think that despite how much the US has changed and others, there's still a certain amount of hedging going on.

00:23:46.756 --> 00:23:49.656



<v SPEAKER\_1>We haven't thrown all in on this.

00:23:49.656 --> 00:23:57.896

<v SPEAKER\_1>And I think that's partly because these are still, for most producers, not a profitable line of business.

00:23:57.896 --> 00:24:01.336

<v SPEAKER\_1>Even in China, we have 150 to 200 producers.

00:24:01.616 --> 00:24:07.556

<v SPEAKER\_1>There's really only two to five that really are making profits on this.

00:24:07.556 --> 00:24:16.076

<v SPEAKER\_1>And that's for companies with hard budget constraints and shareholders, that's not really something that you want to take to your quarterly meetings.

00:24:16.076 --> 00:24:27.056

<v SPEAKER\_1>In addition, there are other potential breakthrough propulsion sources of energy, like hydrogen, fuel cells, biofuels.

00:24:27.056 --> 00:24:35.236

<v SPEAKER\_1>And you don't want to just put all your eggs in just one basket because there are weaknesses and limitations to lithium ion batteries.

00:24:36.676 --> 00:24:39.376

<v SPEAKER\_1>And also, our market looks different.

00:24:39.496 --> 00:24:45.296

<v SPEAKER\_1>The US market in particular, and maybe Canada's as well, is we have wide open spaces.

00:24:45.296 --> 00:24:54.076

<v SPEAKER\_1>People want to be able to drive far and carry stuff, oftentimes with pickup trucks or other types of vehicles.

00:24:55.256 --> 00:24:59.636

<v SPEAKER\_1>China is largely an urban driving phenomena.

00:24:59.636 --> 00:25:01.336

<v SPEAKER\_1>Crossing the country is unlikely.

00:25:01.336 --> 00:25:03.916

<v SPEAKER\_1>And most Chinese are not do-it-yourselfers.

00:25:04.176 --> 00:25:06.676

<v SPEAKER\_1>They're not carrying around equipment and things like that.

00:25:06.676 --> 00:25:11.356

<v SPEAKER\_1>So we have different kinds of markets, different kinds of economies, different kinds of...

00:25:11.496 --> 00:25:16.596

<v SPEAKER\_1>And so the US has moved more gradually in.

00:25:16.596 --> 00:25:20.656

<v SPEAKER\_1>I do think China has filled that void.

00:25:21.616 --> 00:25:29.416

<v SPEAKER\_1>I do think at some point to really get the US and others beyond, they're going to have to make a bigger bet on this.

00:25:29.416 --> 00:25:34.076

<v SPEAKER\_1>And the politics in the US are still very fraught on this.

00:25:34.476 --> 00:25:39.296

<v SPEAKER\_1>This has become in some ways a partisan issue, which I think is unfortunate.

00:25:39.456 --> 00:25:48.156

<v SPEAKER\_1>And that could very well slow the U.S.'s electrification and essentially cede continued dominance to China.

00:25:49.296 --> 00:25:52.396

<v SPEAKER\_2>That's outstanding analysis for us, Scott.

00:25:53.696 --> 00:26:13.476

<v SPEAKER\_2>I think that a lot of the things that people take for granted and that particular understanding of what the polity of China is relative to what we would feel in the West in a big wide open society, travel far, fix it yourself, that is really great intel for us as analysts.

00:26:13.476 --> 00:26:15.596

<v SPEAKER\_2>Before we go, and Scott, thanks a lot for this.

00:26:17.796 --> 00:26:21.836

<v SPEAKER\_2>This has been a bit different for us, and we really appreciate your insights.

00:26:21.836 --> 00:26:24.976

<v SPEAKER\_2>But I'd like to turn to some potential policy takeaways.

00:26:24.976 --> 00:26:33.196

<v SPEAKER\_2>You might be aware that the Canadian government has embarked on its own EV industrial strategy, whether that's good or

bad, I don't know.

00:26:33.196 --> 00:26:39.916

<v SPEAKER\_2>I'm not real sold on it so far because a lot of it includes extensive subsidies for auto manufacturers.

00:26:39.916 --> 00:26:45.796

<v SPEAKER\_2>And a recent announcement that we may be implementing high tariff barriers on Chinese EV imports.

00:26:45.796 --> 00:26:50.036

<v SPEAKER\_2>I guess we better pay attention to what our biggest trading partner is doing.

00:26:50.036 --> 00:26:57.436

<v SPEAKER\_2>But would you have any advice for our government looking to compete with China in this sector?

00:26:58.756 --> 00:27:03.136

<v SPEAKER\_2>You have an extensive background of Chinese expertise.

00:27:03.216 --> 00:27:10.096

<v SPEAKER\_2>Could you do anything else that we should be thinking about here in the near and midterm future?

00:27:10.096 --> 00:27:12.196

<v SPEAKER\_1>Sure.

00:27:12.196 --> 00:27:26.756

<v SPEAKER\_1>China is, again, as we touched on at the outset, changed dramatically in the last several decades from a very poor developing country to one that is competing at the very high end.

00:27:26.756 --> 00:27:31.856

<v SPEAKER\_1>On the other hand, a lot of Chinese industrial policies have not succeeded.

00:27:32.236 --> 00:27:41.456

<v SPEAKER\_1>There has been a tremendous amount of waste, and the rise of debt in China has gone up, and level of inequality in China is quite high.

00:27:41.456 --> 00:27:54.296

<v SPEAKER\_1>I think that we want to see what there is positive from the Chinese experience, but not copy it because there is also pathologies and mistakes that we want to avoid.

00:27:55.996 --> 00:28:19.896

<v SPEAKER\_1>Remembering how strong Western economies are and how they got here, yes, occasionally industrial policy, but broadly the

discipline and competition that comes through having market economies that are well-regulated is really important, and that still applies in shiny stuff like electric vehicles and other high-tech.

00:28:20.516 --> 00:28:39.236

<v SPEAKER\_1>So I think if we're going, if we're heading down the road of tariffs, I think we want to be careful that the tariffs that we adopt are not randomly identified numbers that we think would make us happy.

00:28:39.236 --> 00:28:59.936

<v SPEAKER\_1>There is an international economic order and a rules-based system that we want to be able to defend through this and appropriately imposing restrictions because of what we can identify as unfair subsidies and unfair competitive practices is really important.

00:28:59.936 --> 00:29:03.796

<v SPEAKER\_1>But you can't just randomly pick numbers out of a hat and out of thin air.

00:29:03.796 --> 00:29:08.696

<v SPEAKER\_1>I think we need to be able to justify the math and come up with math for restrictions.

00:29:08.696 --> 00:29:11.976

<v SPEAKER\_1>I think also it's important that these restrictions have deadlines.

00:29:12.836 --> 00:29:21.576

<v SPEAKER\_1>If you put on an unlimited restriction and protection on domestic industry, that eliminates some of the incentive to be competitive.

00:29:21.576 --> 00:29:23.576

<v SPEAKER\_1>You don't want that as the result.

00:29:23.576 --> 00:29:39.056

<v SPEAKER\_1>What you want is a healthy economy and your own industries to use that time, limited time, to improve, scale up and provide the type of products and services and technologies that we all think would be better.

00:29:39.276 --> 00:29:47.656

<v SPEAKER\_1>I think it's important to have targeted, focused, defensible restrictions that are limited in time.

00:29:47.656 --> 00:30:02.216

<v SPEAKER\_1>I think in addition to that, as problematic as some of the Chinese practices are that we have, they have reduced the cost of some of these technologies and some of them are quite good.

00:30:02.216 --> 00:30:10.176

<v SPEAKER\_1>Although we don't want the Chinese products to be the only solution, they probably need to be part of the solution.

00:30:10.176 --> 00:30:25.096

<v SPEAKER\_1>We're going to have to find ways in which we can adopt appropriate restrictions, protections and resilience, but still not 100 percent ban Chinese from our markets altogether.

00:30:25.096 --> 00:30:33.696

<v SPEAKER\_1>Now, there may be reasons for data security because vehicles are connected, where that may become increasingly hard.

00:30:33.696 --> 00:30:45.576

<v SPEAKER\_1>But I think what we need to do is figure out how to walk and chew gum at the same time, have appropriate kinds of restrictions, but also incentives and seeing what we can do to manage these relationships.

00:30:45.576 --> 00:30:51.616

<v SPEAKER\_1>And that's not just because China's got a big auto market itself that we want to sell to or other things.

00:30:51.616 --> 00:30:53.136

<v SPEAKER\_1>I think we'll get better innovation.

00:30:53.336 --> 00:31:01.196

<v SPEAKER\_1>I think we'll have a stronger rules-based order if we can figure out how to, in a more sophisticated, nuanced way, manage these challenges.

00:31:01.616 --> 00:31:08.216

<v SPEAKER\_1>The political incentives in the US and other places are very zero-sum, very black and white.

00:31:08.216 --> 00:31:12.416

<v SPEAKER\_1>And that's the most likely avenue that we'll take.

00:31:12.416 --> 00:31:23.256

<v SPEAKER\_1>But I would just propose that there's a better way that would address these challenges and actually be better for our industries.

00:31:23.256 --> 00:31:47.596

<v SPEAKER\_1>And in 10 years, when we're looking back, if we took a more nuanced approach, I think we'll have protected our industrial base, our national security, and found a way to manage the relationship with a complex China better than if we had just drawn a line across the Pacific and said, let's just go our separate ways.

00:31:47.596 --> 00:31:49.416  
<v SPEAKER\_2>What great insights, Scott.

00:31:50.496 --> 00:32:04.696  
<v SPEAKER\_3>Great advice for Canadian policy makers, and hopefully a few of them listen to this podcast, can consider your insights here, and can also read your report, which by the way, I will link in the show notes here, so everybody listening can find that there.

00:32:04.696 --> 00:32:16.296  
<v SPEAKER\_3>One last question, Scott, before we leave, I'd like to know, and this is what all of our listeners are always very interested in, what are you reading ideally for pleasure these days, but we'll also take a heavy book if that's what you're reading right now.

00:32:17.096 --> 00:32:41.536  
<v SPEAKER\_1>Well, a friend of mine who's worked on China a long time, Anne Stevenson-Yang, who has a consulting company now called J Capital Research, has just published a really interesting book called Wild Ride, which is a short history of the opening and closing of the Chinese economy.

00:32:42.276 --> 00:32:53.156  
<v SPEAKER\_1>I don't think everyone has to necessarily agree with Anne's conclusions, but she has worked on the ground in China longer than just about anybody.

00:32:53.156 --> 00:33:01.096  
<v SPEAKER\_1>She's an extremely careful observer and thoughtful, and this is not a long book.

00:33:01.096 --> 00:33:03.016  
<v SPEAKER\_1>It's a provocative book.

00:33:03.016 --> 00:33:08.596  
<v SPEAKER\_1>I think when we read, we ought to be provoked and pushed and moved out of our comfort zones.

00:33:08.656 --> 00:33:13.356  
<v SPEAKER\_1>And so I would encourage folks to look at her book.

00:33:13.596 --> 00:33:18.756  
<v SPEAKER\_1>It's non-fiction, but it's a pleasure to go through.

00:33:18.756 --> 00:33:19.716  
<v SPEAKER\_1>For sure.

00:33:19.716 --> 00:33:21.096  
<v SPEAKER\_2>Thanks for that, Scott.

00:33:21.556 --> 00:33:28.876

<v SPEAKER\_2>I always in this discussion, whenever there's a discussion about China, I circle back to the comment one of our colleagues, Dr.

00:33:28.876 --> 00:33:30.716

<v SPEAKER\_2>Ian Brody made.

00:33:30.716 --> 00:33:42.036

<v SPEAKER\_2>In the mid-90s, when this opening to the East was happening, someone would say, you know, look, it's a market of a billion and a half people.

00:33:42.296 --> 00:33:43.696

<v SPEAKER\_2>Is it worth the risk?

00:33:43.696 --> 00:33:45.536

<v SPEAKER\_2>And it probably was.

00:33:45.536 --> 00:33:52.276

<v SPEAKER\_2>Everything hasn't turned out the way that the West maybe wanted, but hell, we had to take a shot at the size of the market.

00:33:52.276 --> 00:33:56.956

<v SPEAKER\_2>So, Scott, thanks so much for coming on our podcast.

00:33:56.956 --> 00:34:00.936

<v SPEAKER\_2>This has been very informative for us.

00:34:00.936 --> 00:34:05.676

<v SPEAKER\_1>Great talking to both of you, and look forward to getting together again, whenever you'd like.

00:34:05.676 --> 00:34:05.976

<v SPEAKER\_3>Of course.

00:34:05.976 --> 00:34:07.276

<v SPEAKER\_2>Thanks a lot.

00:34:08.956 --> 00:34:15.116

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00:34:15.116 --> 00:34:19.616

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00:34:21.816 --> 00:34:27.056

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00:34:34.756 --> 00:34:38.316

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<v SPEAKER\_2>Thanks go out to our producer Joe Calnan and to Drew Phillips for providing our music.

00:34:43.376 --> 00:34:44.296

<v SPEAKER\_2>I'm Kelly Ogle.

00:34:44.296 --> 00:34:46.376

<v SPEAKER\_2>Thanks for joining us on Energy Security Cubed.